450

Community and Regional Development

Budget function 450 includes programs that support the development of physical and financial infrastructure intended to promote viable community economies. It covers certain activities of the Department of Commerce and the Department of Housing and Urban Development. This function also includes spending to help communities and families recover from natural disasters and spending for the rural development activities of the Department of Agriculture, the Bureau of Indian Affairs, and other agencies. CBO estimates that in 2003, discretionary outlays for function 450 will be almost $16 billion. Such spending for community and regional development has roughly doubled from the levels of the early 1990s.

Federal Spending, Fiscal Years 1990-2003 (In billions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Estimate 2003
Budget Authority (Discretionary)	7.3	5.9	11.4	9.7	15.4	12.1	11.7	13.1	10.4	11.1	12.2	14.4	22.8	11.4
Outlays														
Discretionary	7.3	6.2	6.4	8.4	10.9	10.2	10.4	10.8	10.2	12.0	11.4	12.4	14.2	15.7
Mandatory	1.2	0.6	0.4	0.7	-0.3	0.5	0.3	0.3	-0.4	-0.1	-0.8	-0.5	-1.2	0.1
Total	8.5	6.8	6.8	9.1	10.6	10.7	10.7	11.1	9.8	11.9	10.6	11.9	13.0	15.9
Memorandum: Annual Percentage Change in Discretionary Outlays	n.a.	-16.0	3.9	31.9	28.8	-6.2	2.3	3.3	-5.3	17.3	-4.6	8.8	13.9	11.1

Note: n.a. = not applicable.

450-01—Discretionary

Convert the Rural Community Advancement Program to State Revolving Loan Funds

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Savings							
Budget authority	14	30	48	65	85	242	5,003
Outlays	1	5	14	26	42	88	2,673

The Department of Agriculture's Rural Community Advancement Program (RCAP) assists rural communities by providing loans, loan guarantees, and grants for water and waste-disposal projects, community facilities, economic development, and fire protection. Funds are generally allocated among the states on the basis of their rural populations and the number of rural families with income below the poverty level. Within each state's allocation, the department awards funds on a competitive basis to eligible applicants, including state and local agencies, nonprofit organizations, and (in the case of loan guarantees for business and industry) for-profit firms.

The terms of a particular recipient's assistance depend on the purpose of the aid and, in some cases, the economic condition of the recipient's geographic area. For example, aid for water and waste-disposal projects can take the form of loans with interest rates ranging from 4.5 percent to market rates, depending on the area's median household income; areas that are particularly needy may receive grants or a mix of grants and loans.

For 2002, the Congress appropriated roughly $800 million for RCAP's grants and the budgetary cost of its loans and loan guarantees, which is defined under credit reform as the present value of the interest rate subsidies and expected defaults. The Congress could reduce future spending by capitalizing state revolving loan funds for rural development and then ending federal assistance under RCAP. The amount of federal savings would depend on the level and timing of the contribution to capitalize the revolving funds. Under one illustrative option, the federal government would provide steady funding of $807 million annually for five more years to capitalize the funds, then cut off assistance in 2009. That option would yield savings of $2.7 billion from 2004 to 2013. That level of capitalization alone would not support the volume of loans and grants that RCAP now provides. Accordingly, the Congress could allow the revolving funds to use their capital as collateral with which to leverage new funds from the private sector—as the state revolving loan funds established under the Clean Water and Safe Drinking Water Acts have been allowed to do.

Supporters of this option contend that the federal government should not bear continuing responsibility for local development; rather, programs that benefit localities, whether urban or rural, should be funded at the state or local level. They argue that a few more years of federal funding to capitalize the revolving funds will provide a reasonable transition to the desired policy.

Opponents of converting RCAP argue that states might shift their aid from grants to loans and from low-interest to high-interest loans to avoid depleting the revolving funds, which could price the aid out of the reach of needier communities. In addition, precedent suggests that the estimated federal savings might not materialize: the Congress continues to appropriate additional grants to the state funds for wastewater treatment systems, long past the expiration of the original authorization for those grants.

RELATED OPTION: 300-02

450-02—Discretionary

Eliminate Region-Specific Development Agencies

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Savings							
Budget authority	121	123	126	129	132	631	1,337
Outlays	21	54	86	106	119	386	1,064

The federal government provides annual funding to three regional development agencies: the Appalachian Regional Commission (ARC), the Denali Commission, and the Delta Regional Authority (DRA). The ARC, established in 1965, conducts activities that promote economic growth in the Appalachian counties of 13 states. Modeled after the ARC, the Denali Commission, created in 1998, covers remote areas in Alaska. Similarly, the DRA, established in 2000, covers 240 counties and parishes near the Mississippi River in eight states stretching from southern Illinois to the Louisiana coast. For 2003, the Congress appropriated $71 million for the ARC, $38 million for the Denali Commission, and $10 million for the DRA. Discontinuing federal funding for all three programs would save $21 million in 2004 and $386 million over five years.

The three agencies provide programs designed to, among other things, create jobs, improve rural education and health care, develop utility and other infrastructure, and provide job training. Few studies address the effectiveness of such programs. A 1996 report by the General Accounting Office reviewed the available evidence and found one study showing that ARC-aided counties grew significantly faster, along various socioeconomic measures, than otherwise similar non-ARC counties. However, a strong link could not be made between the activities of the ARC and the counties' growth.

Supporters of this option focus on two main points. First, they contend that the responsibility for supporting local or regional development basically lies with the state and local governments whose citizens will benefit from the development, not with the federal government. Second, they note that all regions of the country have needy areas; thus, they argue that the Appalachian areas, rural Alaska, and the Mississippi Delta have no special claim to federal dollars and should get any federal development aid through national programs, such as those of the Economic Development Administration.

Opponents of this option believe that the federal government has a legitimate role to play in redistributing funds among states to support development in the neediest areas and that cutting federal funding would reduce local progress in education, health care, and job creation. They further contend that the size, physical isolation, and severe poverty of Appalachia and the other regions covered require special attention.

RELATED OPTION: 450-08

450-03—Discretionary

Drop Wealthier Communities from the Community Development Block Grant Program

						Total	
(Millions of dollars)	2004	2005	2006	2007	2008	2004-2008	2004-2013
Savings							
Budget authority	620	633	646	659	674	3,232	6,832
Outlays	12	211	476	572	615	1,886	5,332

The Community Development Block Grant (CDBG) program provides annual grants to cities and urban counties through what is referred to as its entitlement component. The program also allocates funds to states, which in turn distribute them among smaller and more rural communities, called nonentitlement areas, typically through a competitive process.

In general, CDBG funds must be used to aid low- and moderate-income households, eliminate slums and blight, or meet emergency needs. Specific eligible uses include housing rehabilitation, infrastructure improvement, and economic development. Funds from the entitlement component may also be used to repay bonds that are issued by local governments (to acquire public property, for example) and guaranteed by the federal government under the Section 108 program. For 2003, the CDBG program received an appropriation of $4.4 billion, including $3.0 billion for entitlement communities.

Under current law, all urban counties, central cities of metropolitan areas, and cities with a population of 50,000 or more are eligible for the CDBG entitlement program. The program allocates funds according to a formula that includes the following factors: population, the number of residents with income below the poverty level, the number of housing units with more than one person per room, the number of housing units built before 1940, and the extent to which an area's population growth since 1960 is less than the average for all metropolitan cities. The formula neither requires a threshold percentage of residents living in poverty nor excludes communities with high average income. An analysis in the President's budget for 2004 shows that under the current formula, population and other data from the 2000 census will shift funding from poorer to wealthier communities, as measured by average poverty rates.

Federal spending for the program could be reduced by focusing entitlement grants on needier jurisdictions and lowering funding accordingly. Several alternative changes to the current formula could yield similar results; one simple approach, however, would be to exclude communities whose per capita income exceeds the national average by more than a certain percentage. Data suggest that restricting the grants to communities whose per capita income is less than 112 percent of the national average, for example, would save 26 percent of the entitlement funds, in part by cutting the large grants to New York City and Los Angeles. To illustrate the general approach, this option assumes a somewhat smaller cut of 20 percent of entitlement funding, which would save an estimated $12 million in 2004 and $1.9 billion over five years.

Proponents of this option might argue that if the CDBG program can be justified at all (some people contend that using federal funds for local development is generally inappropriate), its primary rationale is redistribution and that redirecting money to wealthier communities serves no pressing interest. Opponents might argue that such a change would reduce efforts to aid low- and moderate-income households in pockets of poverty within those communities, because local governments would not sufficiently reallocate their own funds to offset the lost grants.

RELATED OPTIONS: 450-07 and 450-08

450-04—Discretionary

Eliminate the Neighborhood Reinvestment Corporation

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Savings							
Budget authority	107	109	111	114	116	557	1,177
Outlays	107	109	111	114	116	557	1,177

The Neighborhood Reinvestment Corporation (NRC) is a public, nonprofit organization charged with revitalizing distressed neighborhoods. The NRC oversees a network of locally initiated and operated groups called NeighborWorks organizations, or NWOs, which engage in a variety of housing, neighborhood revitalization, and community-building activities. The corporation provides technical and financial assistance to begin new NWOs; it also monitors and assists current network members. As of September 2002, the NeighborWorks network had 223 members operating in 2,339 communities nationwide. For 2002, the NRC's appropriation was $105 million.

With its appropriated funds, plus a few million dollars from fees and other sources, the corporation provides grants, conducts training programs and educational forums, and produces publications in support of NWOs. The bulk of the grant money goes to NWOs, which use the funds to purchase, construct, and rehabilitate properties; capitalize their revolving loan funds; develop new programs; and cover their operating costs. NWOs' revolving loan funds make home ownership and home improvement loans to individuals or loans to owners of mixed-use properties who provide long-term rental housing for low- and moderate-income households. In addition, the NRC awards grants to Neighborhood Housing Services of America to provide a secondary market for the loans from NWOs. Eliminating the NRC would save $107 million in 2004 and $557 million over five years.

Supporters of this option assert that the federal government should not fund programs whose benefits are local rather than national. In addition, they argue that the NeighborWorks approach duplicates the efforts of programs of other federal agencies (particularly the Department of Housing and Urban Development, or HUD) that also rehabilitate low-income housing and promote home ownership and community development. Moreover, they note that even within the NeighborWorks approach, the NRC is a redundant funding channel. In 2001, NRC grants accounted for about 17 percent of the NWOs' government funding and roughly 3.4 percent of their total funding. Larger shares came from private lenders, foundations, corporations, and HUD.

Opponents of this option argue that the large number of federal programs to assist local development is evidence of widespread support for a federal role—particularly in areas where state and local governments may lack adequate resources of their own. They further argue that NWOs concentrate on whole neighborhoods rather than individual housing properties and, with their nonhousing activities (such as community organization building, neighborhood cleanup and beautification, and leadership development), provide economic and social benefits that other federal programs do not. Finally, people who oppose this option say that the NRC is valuable because of its flexibility in making grants, which allows it to fund worthwhile efforts that do not fit within the narrow criteria of larger federal grantors, and because of the valuable services it provides to the NWOs, such as training, program evaluation, and technical assistance.

RELATED OPTION: 450-07

450-05—Mandatory

Drop Flood Insurance for Certain Repeatedly Flooded Properties

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Savings							
Budget authority	0	0	0	0	0	0	0
Outlays	90	194	209	225	242	960	2,481

Data from the National Flood Insurance Program (NFIP) show that a relatively small number of properties subject to repeated flooding account for a large share of the losses incurred by the program. The Federal Emergency Management Agency (FEMA), which administers the NFIP, has focused its attention on properties for which there have been two or more losses of at least $1,000 each in any 10-year period since 1978 (the earliest year for which data are available). The roughly 95,000 properties fitting that definition account for about one-third of all claims, by both number and dollar value, since 1978. Many of those properties no longer have flood insurance: in some cases, the property has been destroyed or relocated; in other cases, the owner dropped the policy —for example, after FEMA, in 1983, limited coverage under the NFIP for basement losses. The NFIP currently insures roughly 45,000 repeatedly flooded properties, representing about 1 percent of all policies in force but accounting for a much larger share of annual flood losses.

The issue of repeatedly flooded properties raises concern in part because they generally are covered at premiums that are well below the actuarial risk of flood losses. FEMA's data show that 95 percent of such properties were built before the development of the flood insurance rate map (FIRM) for their community—which is not surprising, given the flood mitigation requirements imposed on post-FIRM construction. Thus, almost all repeatedly flooded properties are covered under the pre-FIRM premiums that the government explicitly subsidizes. (See the related discussion in option 450-06.) Some properties may incur losses twice in 10 years because of a bad "draw" of storms or other random events—but others have flooded four, five, or even 10 or 20 times since 1978.

One way to reduce federal costs for the flood insurance program would be to deny coverage after the third loss of at least $1,000 in any 10-year period. According to FEMA's data, that option would immediately affect more than 27,000 properties; by the Congressional Budget Office's estimates, it would reduce federal outlays by $90 million in 2004 and $960 million over the 2004-2008 period. Supporters of this option argue that neither taxpayers nor other policyholders should be required to provide an unlimited subsidy for properties known to be at high risk for frequent flood damage. The loss or threat of losing the NFIP's protection could encourage owners of such properties to take appropriate mitigation measures, such as elevating their structures or rebuilding elsewhere.

Opponents of this option argue that it would be unfair to the owners to suddenly withdraw their protection from flood risk—especially owners who have occupied their properties since before the local FIRM was developed and who cannot readily afford relocation or other costly mitigation measures. Some opponents might prefer a more moderate change from the current policy, such as adding a repetitive-loss surcharge to insurance premiums or denying coverage only to policyholders who reject offers of mitigation assistance.

RELATED OPTION: 450-06

450-06—Mandatory

Phase Out the Flood Insurance Subsidy on Pre-FIRM Structures Other Than Primary Residences

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Added Receipts	25	60	106	182	215	588	1,702

The National Flood Insurance Program (NFIP) charges two different sets of premiums: one for buildings constructed before 1975 or before the completion of a participating community's flood insurance rate map (FIRM)—known as pre-FIRM buildings—and another for post-FIRM buildings. Post-FIRM premiums are intended to be actuarially sound—that is, to cover the costs of all insured losses over the long term—and are based on buildings' elevations relative to the water level expected during a "100-year flood" (the most severe flood thought to have a local probability of at least 1 in 100 each year). In contrast, pre-FIRM rates are heavily subsidized, on average, and do not take elevation into account.

The Federal Emergency Management Agency (FEMA), which administers the flood insurance program, estimates that about 19 percent of all coverage is provided at pre-FIRM rates. Those rates are available only for the first $35,000 of coverage for a single-family or a two- to four-family dwelling and for the first $100,000 of coverage for a larger residential, nonresidential, or small-business building. Various levels of additional coverage are available at actuarially sound rates. The program also offers insurance for buildings' contents; again, policyholders in pre-FIRM buildings pay lower rates for a first tier of coverage. The Congressional Budget Office estimates that, on average, the first-tier prices represent 38 percent of the actuarial value, implying a subsidy rate of 62 percent. The size of the subsidy for any particular building depends heavily on its elevation.

Phasing out the subsidy on all insured structures other than primary residences—second and vacation homes, rental properties, and nonresidential structures—would yield additional receipts of $25 million in 2004 and $588 million over the 2004-2008 period. Those estimates take into account the likelihood that some current policyholders will drop their coverage. Flood insurance is mandatory only for properties in special flood hazard areas that carry mortgages from federally insured lenders, and compliance with the requirement is far from complete. Accordingly, CBO expects that the option would somewhat reduce the participation of both voluntary purchasers and property owners for whom the insurance is mandatory.

Advocates of this option argue that the subsidy has outlived its original justification as a temporary measure to encourage participation among property owners who were not previously aware of the magnitude of the flood risks they faced. Phasing out the subsidies, such advocates maintain, would make policyholders pay more of their fair share for insurance protection and would give them incentives to relocate or take preventive measures. And while some proponents would prefer to phase out the subsidies on primary residences as well, advocates of this particular option argue that it focuses on structures whose owners would face relatively little hardship in paying actuarial rates.

Some opponents of this option primarily object to its inclusion of rental properties, because owners may pass on the increased costs to renters. Others support the subsidy more generally, on the grounds that it would be unfair to charge full actuarial rates to owners of properties built before FEMA documented the extent of local flood hazards. Subsidy supporters would also argue that reduced rates of participation in the program would lead to increased spending on disaster grants and loans and thereby erode some of the projected savings. Finally, they question the accuracy of the maps FEMA uses to estimate the average long-run subsidy, noting that for most pre-FIRM properties (except a relatively few structures that repeatedly flood), premiums now roughly equal the average losses incurred to date.

RELATED OPTION: 450-05

450-07—Discretionary

Eliminate the Community Development Financial Institutions Fund

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Savings							
Budget authority	65	82	83	85	88	403	874
Outlays	5	35	69	81	84	274	728

The Congress created the Community Development Financial Institutions (CDFI) fund in 1994 to expand the availability of credit, investment capital, and financial services in distressed communities. The fund provides equity investments, grants, loans, and technical assistance to CDFIs, which include community development banks, credit unions, loan funds, venture capital funds, and microenterprise funds. In turn, the CDFIs provide a range of financial services—such as mortgage financing for first-time home buyers, loans and investments for new or expanding small businesses, and credit counseling—in markets that are underserved by traditional institutions. The CDFI fund also provides incentive grants to traditional banks and thrifts to invest in CDFIs and to increase loans and services to distressed communities. In addition, the fund administers the New Markets Tax Credit (NMTC) program begun in 2002 to provide federal tax credits for qualified investments in "community development entities."

For 2002, the Congress appropriated $79 million for the CDFI fund. Eliminating the fund would save $5 million in 2004 and $274 million over five years. The estimated savings take into account the small amount of spending that would still be required by other agencies for oversight of the fund's existing loan portfolio and administration of the NMTC program.

Supporters of this option argue, first, that local development should be funded at the state or local level, not by the federal government, since its benefits are not national in scope. Second, they see the CDFI fund as redundant, given that many other federal programs and agencies support home ownership and local economic development, including the Empowerment Zones/Enterprise Communities Program, housing loan programs of the Rural Housing Service, the Community Development Block Grant program, the Neighborhood Reinvestment Corporation, and the Economic Development Administration. Appropriations for those programs and agencies totaled $6.2 billion in 2002. Third, some proponents argue that assistance to CDFIs is likely to be inefficient, encouraging them to make loans that would not pass market tests for creditworthiness.

Opponents of this option contend that the federal government has a legitimate role in assisting needy communities, some of which lack access to traditional credit sources. By assisting existing CDFIs and stimulating the creation of others, the fund provides an efficient mechanism, they argue, for leveraging private-sector investment with a relatively small federal contribution.

RELATED OPTIONS: 450-03, 450-04, and 450-08

450-08—Discretionary

Eliminate Grant Funding for Empowerment Zones

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Savings							
Budget authority	61	63	64	65	67	320	673
Outlays	1	21	47	57	61	187	527

The Omnibus Budget Reconciliation Act of 1993 authorized a program under which nine economically distressed communities could be designated as “empowerment zones.” To receive the designation, communities had to meet certain eligibility criteria and compete for selection on the basis of their strategic plans for implementing the program, which provides tax incentives—in the form of wage tax credits, accelerated depreciation, and tax-exempt financing—to businesses to encourage them to locate to or expand in the designated areas. When the law was enacted, the Congress made available $100 million in block grants for each urban empowerment zone and $40 million for each rural one to support a broad range of economic and social development activities. (The law also authorized designation of 95 “enterprise communities” that are eligible for grants of $3 million each.)

Since 1993, the Congress has authorized two additional rounds of empowerment zones, increasingly emphasizing tax credits rather than grants. Only zones created in 1998 continue to receive grant funding. In 2002, funding for those zones totaled $60 million. In recent years, the President has requested no funding for grants to empowerment zones.

Eliminating grant funding, while leaving the tax incentives in place, would save $1 million in 2004 and $187 million over five years. Proponents of this option contend that local economic development is an inappropriate use of federal dollars and should be left to state and local governments. They further note that funds for social services and community benefits are available from a number of other government programs, including the Community Development Block Grant program and various regional commissions and authorities. Proponents of eliminating grants also argue that tax breaks and other incentives are a more cost-effective way to stimulate private-sector activity and thereby promote economic revival.

People opposed to the option argue that some evidence shows that communities are carrying out their plans to develop local capacities to assist businesses and encourage private investment. Opponents note that the program could do more to help local entrepreneurs if additional funds were available to assist with business planning and administration. Finally, many communities issued bonds and developed strategic plans expecting that multiyear grant funding would be available.

RELATED OPTIONS: 450-02, 450-03, and 450-07